

D.P.U. 93-91

Application of Mass-Save, Inc., pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.0@t seq., for approval by the Department of Public Utilities of the Company's proposed operating budget for the Residential Energy Conservation Service Program for fiscal year 1994 (July 1, 1993 - June 30, 1994).

APPEARANCES: James K. Brown, Esq.
Foley, Hoag & Eliot
One Post Office Square
Boston, Massachusetts 02109
FOR: MASS-SAVE, INC.
Petitioner

Christine Conostas-Erickson, Esq.
Robert Levite, Esq.
100 Cambridge Street
Boston, Massachusetts 02202
FOR: DIVISION OF ENERGY RESOURCES
Intervenor

I. INTRODUCTION

On April 30, 1993, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00et seq., Mass-Save, Inc. ("MSI") filed with the Department of Public Utilities ("Department"), a petition for approval by the Department of the Company's proposed operating budget of \$5,962,450 for the 1-4 unit ("1-4") and multifamily building ("MFB") residential energy conservation service ("ECS") programs for the fiscal year July 1, 1993 through June 30, 1994 ("FY 1994"). The petition was docketed as D.P.U. 93-91.

Pursuant to notice duly issued, a hearing was held at the offices of the Department on June 8, 1993. The Department granted the petition for leave to intervene filed by the Commonwealth of Massachusetts, Executive Office of Economic Affairs, Division of Energy Resources ("DOER"). No other petitions for leave to intervene were filed.

In support of its petition, MSI sponsored the testimony of one witness: Allen R. Sayles, president of MSI. DOER sponsored the testimony of Bruce Ledgerwood, energy planner for residential programs at DOER. MSI submitted 29 exhibits and responded to four record requests, DOER submitted six exhibits and responded to one record request, and the Department submitted 27 exhibits. All were admitted into evidence.

MSI is an independent, non-profit corporation sponsored by investor-owned electric and gas utilities and municipal light departments in Massachusetts. MSI was formed in response to the

mandates of the National Energy Conservation Policy Act of 1978 ("NECPA") and St. 1980, c. 465. MSI provides ECS services to the following investor-owned utilities: (1) Boston Gas Company; (2) Fall River Gas Company; (3) Cambridge Electric Light Company; (4) Commonwealth Electric Company; (5) Fitchburg Gas and Electric Light Company; (6) Eastern Edison Company; (7) Massachusetts Electric Company; (8) Colonial Gas Company (Cape Cod and Lowell Divisions); (9) Nantucket Electric Company; (10) Blackstone Gas Company; (11) Western Massachusetts Electric Company; (12) North Attleboro Gas Company; and (13) Essex County Gas Company. MSI also provides ECS services to 18 municipal utilities.

II. STATUTORY HISTORY

In response to the mandates of NECPA, the Commonwealth of Massachusetts enacted St. 1980, c. 465, codified as G.L. c. 164 App., §§ 2-1 through 2-10, to establish the ECS program and to require all electric and gas utilities in Massachusetts to offer on-site energy conservation and renewable energy resource services to their customers, thereby encouraging citizens to take steps to immediately improve the energy efficiency of all residential buildings in Massachusetts. G.L. c. 164 App., § 2-2. The statute requires each utility to provide certain energy conservation services through individual or joint efforts in conformance with an overall state plan. G.L. c. 164 App.,

¹ Prior to 1989, DOER required utilities to offer a commercial energy conservation service program for businesses and other commercial customers; however, DOER eliminated that
(continued...)

§ 2-6(b).

Pursuant to the statute, DOER must adopt a state plan and promulgate regulations necessary to implement that plan. G.L. c. 164 App., § 2-3(a). Specifically, DOER is responsible for: (1) setting up residential conservation and energy goals ("goals"); (2) establishing ECS program guidelines; (3) monitoring the implementation of the program requirements; and (4) overseeing the implementation of the state plan by approving a utility implementation plan ("UIP"). Each utility must submit a UIP to DOER annually. After a utility receives annual approval of its UIP from DOER, the utility must submit its proposed ECS program operating budget and proposed ECS surcharge for the upcoming fiscal year to the Department for review. G.L. c. 164 App., § 2-7(b).

III. MSI PROPOSAL

A. Establishment of ECS Program Goals

MSI's proposed operating budget of \$5,962,450 for the ECS program for MSI member utilities for FY 1994 is based on DOER ECS goals, detailed in MSI's UIPs, that specify levels of effort required for MSI's member utilities (Exhs. MSI-1, at 3; MSI-3). In conference with MSI and the utilities, DOER establishes specific goals for the delivery of audits and "equivalent

¹(...continued)
requirement when the Department-mandated demand-side management ("DSM") programs, geared toward commercial customers, were implemented. Commonwealth Gas Company D.P.U. 92-116, at 3 (1992).

services", including a variety of follow-up services for customers who have received an audit. The equivalent services are designed to assist customers in pursuing conservation measures recommended as a result of the audit, to provide educational and informational services, and to establish various pilot programs. The Company's proposed budget covers 1-4 residential and MFB conservation services described in two UIPs submitted by MSI to the DOER on March 31, 1993, and approved by the DOER on April 30, 1993 (Exh. MSI-2).

B. Audit Goals

According to MSI, the proposed budget is designed to allow MSI to achieve its FY 1994 ECS 1-4 and MFB program goals. MSI's 1-4 goals are the completion of 35,500 energy audits and the provision of equivalent services² as follows: (1) MSI would perform demonstration material installation ("DMI"³) for 95 percent of all customers audited (Exhs. MSI-3, "1-4 UIP" at 27;

² In addition to the basic energy audit, an auditor may offer certain approved "equivalent services" described below.

³ DMI is the installation by the auditor at the time of the site visit of up to an average of \$30 (materials and labor) of low-cost energy conservation materials (Exh. DOER-3, at 4). Materials are installed for the purpose of demonstrating to the customer the proper application and installation of the material id.). Materials are chosen for installation and demonstration at the discretion of the auditor based on the priority of fuel-blind, specific energy conservation needs of the dwelling as determined during the audit id.).

DOER-3, at 1); (2) MSI would perform major work specifications⁴ for 45 percent of all customers audited (Exhs. MSI-3, "1-4 UIP" at 28; DOER-3, at 1); (3) MSI would perform low-cost work specifications⁵ for 75 percent of all customers audited id.); (4) MSI would provide bulk purchaseservice to 7.5 percent of all customers audited (Exhs. MSI-3, "1-4 UIP" at 29; DOER-3, at 1); (5) MSI would provide a contractor arranging service ("CAS"⁷) to one percent of all customers audited id.); and (6) MSI would complete a post-installation inspection⁸ for 2.5 percent of all

⁴ A major work order/specification is the preparation of a job specification sheet for a major energy conservation measure recommended during the audit from which: (1) a customer may work in a do-it-yourself application; (2) a customer may contract for the installation of the measure by a contractor; or (3) a contractor may work to provide the customer with a complete and accurate bid for installation of an energy conservation measure under the utility's CAS program (see definition of CAS below) (Exh. DOER-3, at 6).

⁵ A low-cost measure work order/specification is the preparation of a job specification sheet for purchase of materials for low-cost energy conservation measures such as infiltration, domestic hot water, and lighting measures (Exh. DOER-3, at 7).

⁶ Bulk purchase is access to bulk bidding or group purchasing services for customers seeking to purchase energy conservation materials (Exh. DOER-3, at 7). Materials available through this service must include all materials, same type and quality, as demonstrated in the DMI service (id.).

⁷ CAS provides technical assistance and guidance to the customer throughout the course of securing and enacting a contract for the installation of energy conservation measures (Exh. DOER-3, at 8). CAS includes assisting the customer in selecting a contractor id.).

⁸ A post-installation inspection is an on-site quality control inspection by a DOER-approved inspector of the installation (continued...)

customers audited (Exhs. MSI-3, "1-4 UIP" at 30; DOER-3, at 1).

MSI's MFB goals are to perform energy audits on 720 MFBs and provide additional services as follows: (1) MSI would offer a minimum of two educational presentations to building owners and managers in each of four MSI regions (Exh. MSI-3, "MFB UIP" at 24);⁹ (2) MSI would provide bulk purchasing services to 70 MFB customers (id. at 25); (3) MSI would offer 50 walk-through surveys to tenants in MFBs id.;¹⁰ and (4) MSI would perform DMI¹¹ for 96 percent of all walk-through survey customers and 75 percent of all MFB audit customers id.).

DOER's witness testified that MSI's FY 1994 goals were established by (1) reviewing ECS production over the previous three years and (2) considering the degree of planned linkage between ECS and utility demand-side ("DSM") management programs

⁸(...continued)
of an energy conservation measure to determine whether the measure will perform properly to save energy (Exh. DOER-3, at 9).

⁹ The purpose of the educational presentations would be to provide generic information on opportunities for conservation in MFBs as well as information on implementation of recommended measures (Exh. MSI-3, "MFB UIP," at 24).

¹⁰ A walk-through survey is an on-site analysis of a tenant's residence in an MFB performed at the request of the tenant which includes a written report of findings and recommendations targeting low-cost and no-cost energy conservation practices and any applicable educational materials (Exh. DOER-3, at 13).

¹¹ When requested by the tenant with permission of the landlord, MSI would demonstrate and install low-cost materials that aid in reducing energy consumption and increasing the tenant's comfort (Exh. DOER-3, at 13).

and the impact of those programs on each component within the ECS program (Exh. DOER-1, at 5).

Regarding the CAS, DOER stated that as part of its ongoing ECS program administration and FY 1993 goal setting procedures, DOER gathered CAS program information from the five ECS utility programs based on the first six months of FY 1993 (Exh. DOER-1, at 6). DOER explained that data was collected and analyzed for program costs, participation rates, and customer investments per installed measure (id.). To evaluate the cost effectiveness of CAS, DOER compared the total program costs to the total estimated savings (id.). To estimate total savings achieved through CAS, DOER calculated the cumulative sum of the estimated lifetime savings of each measure installed under CAS (id.). DOER stated that ECS providers estimated annual savings per measure based on ECS audit savings projections, and that lifetime savings for each individual measure were then estimated by multiplying these first year savings by the individual measure lifetime averages based on technical assessments reported in three utility DSM cases (id. at 7).

DOER stated that its evaluation of CAS did not examine the degradation of measures over their lifetime, interactivity of measures, the effects of free riders, nor did the evaluation consider the benefit of externalities or other non-energy benefits that may have been realized through the work (id.). Furthermore, in its testimony, DOER stated that its analysis of CAS had not discounted the value of future energy savings to

reflect the time-value of money (Tr. at 79). DOER contends that if all of these factors were taken into account, there would still be more than a one to one ratio of dollars saved to dollars spent (Exh. DOER-1, at 7).

IV. STANDARD OF REVIEW

In order for the Department to review a utility's proposed ECS program budget, the utility's budget filing must conform to Department regulations set out at 220 C.M.R. §§ 7.00et. seq. It also must meet the filing requirements enumerated in Mass-Save, Inc., D.P.U. 85-189, at 15-16 (1985).

After determining that a utility's ECS program budget filing is complete, the Department must review the proposed budget for reasonableness and consistency with the state plan adopted by DOER and approve the budget in whole or with modification. G.L. c. 164 App., § 2-7(b). The Department has stated that, in general, expenses for the ECS program require the same level of justification as other utility operating expenses. Mass-Save, Inc., D.P.U. 1531, at 11-12 (1983). These expenses must be shown to be prudently incurred and reasonable. Id. The decision-making process in the selection of contractors, the choice of marketing techniques and expenses, and the allowance made for administrative and other operating costs should be documented to demonstrate that the utility has chosen a reasonable means of meeting the program regulations at the lowest cost. Id. The utility should show that a reasonable range of options has been considered before choosing one particular contractor or plan.

Id.

After completing its review of a utility's proposed ECS expenditures for reasonableness, the Department also must review the utility's proposed ECS surcharge by which the utility is entitled to recover the full cost of the ECS program from its customers. As part of this review, the Department must examine any differences between the amounts collected and the amounts expended on the ECS program by the utility during the prior fiscal year and deduct any expenses that it finds to have been unreasonable. G.L. c. 164 App., § 2-7(f). After deducting any unreasonable expenses, the Department must ensure that the net difference is reflected accurately as an adjustment to the utility's proposed ECS surcharge for the upcoming fiscal year.

Id.

Pursuant to Department precedent, MSI's FY 1994 budget filing reconciles actual and projected costs for prior fiscal years and estimated costs for the upcoming fiscal year. See Mass-Save, Inc., D.P.U. 92-114 (1992). Each member utility then calculates its pro-rata share of Mass-Save expenses and, after receiving the Department's approval, recovers these costs through the monthly residential customer surcharge. See Mass-Save, Inc. Member Utility Surcharges, D.P.U. 92-114-A through N (1992).

V. ANALYSIS AND FINDINGS

A. FY 1992 Expenses

MSI has provided a thorough and complete explanation of its expenditures for FY 1992 (Exh. MSI-29; RR-DPU-4). Based on our

review of the record in this proceeding, the Department finds the Company's twelve month expenditures to be reasonable.

Accordingly, the Department finds that the Company's net operating expenditures of \$7,219,717 for FY 1992 are recoverable from the ratepayers of the Company's member utilities.

B. FY 1993 Expenses

MSI has provided a thorough and complete explanation of its expenditures for the first nine months of FY 1993 (Exhs. MSI-16; MSI-17). Accordingly, the Department finds the Company's actual nine month expenditures of \$4,114,394 for FY 1993 are reasonable and recoverable from the ratepayers of the Company's member utilities. The Department will review the reasonableness of the estimated expenditures of \$1,566,150 for the final three months of FY 1993 in the next annual budget review.

C. Proposed Budget for FY 1994

The Company's witness, Mr. Sayles, testified that the proposed FY 1994 budget was submitted in accordance with Department directives (Exh. MSI-1, at 4). In addition, the Company provided a comparison of its filing with Department filing requirements (Exh. MSI-30). Having examined this information and the Company's filing, the Department finds that the Company's filing is complete and in compliance with Department filing requirements.

Regarding the Company's proposed FY 1994 budget, Mr. Sayles testified that it is lower than the prior year's proposal and represents a substantial reduction in the cost of the ECS program

(Exh. MSI-1, at 3).¹² The Department notes that MSI's filing adequately identifies a cost element for each goal and component of its UIPs. Accordingly, the Department finds that the line-item budget expenditures proposed by MSI meet its FY 1994 goals and that MSI's proposed FY 1994 budget of \$5,962,450 is reasonable.

D. MSI's FY 1994 Member-Utility ECS Budget Allocation

In response to a Department record request, MSI provided the Department with the proposed surcharge allocation sheets for MSI's member-utilities for the Company's proposed FY 1994 ECS budget (RR-DPU-3). According to the Company's calculations, the share of MSI's proposed FY 1994 for each of MSI's member utilities is as follows: (1) Blackstone Gas Company, \$2,327; (2) Boston Gas Company, \$1,041,841; (3) Cambridge Electric Light Company, \$79,751; (4) Colonial Gas Company (Cape Cod Division), \$120,775; (5) Colonial Gas Company (Lowell Division), \$126,607; (6) Commonwealth Electric Company, \$724,469; (7) Eastern Edison Company, \$340,397; (8) Essex County Gas Company, \$79,304; (9) Fall River Gas Company, \$86,738; (10) Fitchburg Gas and Electric Light Company, \$103,894; (11) Massachusetts Electric Company, \$2,403,972; (12) North Attleboro Gas Company, \$6,487; (13) Nantucket Electric Company, \$14,509; and (14) Western Massachusetts Electric Company, \$574,126 (RR-DPU-3). These respective cost allocations total \$5,705,197. The remaining

¹² The proposed FY 1994 ECS budget is 11.7 percent less than the approved FY 1993 budget.

costs are allocated to municipal electric departments that are member-utilities of MSI.

E. Future Proceedings

In Massachusetts Electric Company D.P.U. 92-78, at 19-20, 25-26, 30 (1992), the Department emphasized that in future rate cases, as an aid in determining the reasonableness of certain proposed adjustments to test year operating expenses, the Department will expect all utilities, where possible, to provide comparative analyses of these adjustments to other investor-owned utilities in New England. Id. The Department recognizes the obvious differences between a rate case proceeding and an ECS budget review proceeding, and does not expect each utility or ECS service provider to conduct this level of analysis on its own accord. Nonetheless, the Department finds that the comparative analysis technique is a useful tool in determining the reasonableness of certain operating expenses.

The Department puts DOER and the investor-owned utility/other ECS service providers on notice that in future ECS proceedings the Department expects, as a means of determining the reasonableness of a given company's ECS operating expenses, to compare where possible, one company's ECS operating expenses against other companies' similar expenses³. To facilitate this

¹³ The Department recognizes that, for a variety of reasons, certain companies experience higher costs to serve their customers. These reasons, if explained and justified, would be taken into consideration during the Department's comparative analysis of ECS budgets.

analysis in the fairest and most cost effective manner, the Department recommends that a cooperative dialogue be established among DOER, investor-owned utilities, MSI, and the Department.

VI. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That net operating expenses in the amount of \$7,219,717 are approved for Mass-Save, Inc. for the period of July 1, 1991 through June 30, 1992; and it is

FURTHER ORDERED That net operating expenses in the amount of \$4,114,394 are approved for Mass-Save, Inc. for the first nine months of the period July 1, 1992 through June 30, 1993; and it is

FURTHER ORDERED That a net operating budget in the amount of \$5,962,450 is approved for Mass-Save, Inc. for the period July 1, 1993 through June 30, 1994.

By Order of the Department,